



Bank of Canada Rate Announcement

December 8 2021

Bank of Canada quiet into end of 2021

The Bank of Canada left its policy rate unchanged and maintained its forward guidance in today's rate announcement. The target for the overnight rate was held at the effective lower bound of 0.25 per cent. With the quantitative easing program wrapped up, the Bank engaged in the reinvestment phase with bond holding relatively constant.

There weren't any significant developments in the announcement which highlighted key economic developments in Canada and abroad. Specifically, the Omicron variant has injected new uncertainty into the outlook as travel restrictions tightened. Global growth trends are mixed while inflation remains elevated.

On the growth front, Canada's GDP growth came in at about 5.5 per cent in Q3 in line with their expectations, but the substantial Q2 downward revision was noted, keeping GDP 1.5 per cent below Q4 2019. Persistent supply chain disruptions are holding back growth. Not surprisingly given the latest labour market figures and preliminary estimates for GDP, it sees considerable momentum for Q4, albeit tempered by Omicron and BC floods.

Inflation pressures persist and the Bank now looks to see elevated inflation in the first half of 2022 and move towards two per cent in the back half of the year as global supply constraints continue to feed through. It seems to have backed off the transitory narrative like its Fed peers. That said, it also offered moderating language, highlighting recent gasoline price declines that booted CPI inflation, and core inflation is little changed. Key will be the reaction of wages which could imbed in inflation.

There was no change in when the Bank expects the output gap to close, which is the trigger for a rate hike. It maintained a window of the middle two quarters of 2022. Given momentum in the economy, high inflation and assuming the new variant well managed, a hike at the April meeting that coincides with the Monetary Policy Report is more likely.

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